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RAILWAY MAIL PAY—IS IT EXCESSIVE?

[We are privileged to print the following correspondence between Mr. Ralph Peters, President of the Long Island Railroad and Chairman of the Committee on Railway Mail Pay, and Mr. Henry A. Castle, author of the article, "The Post Office and Socialism," published in a recent issue of THE NORTH AMERICAN REVIEW, as being of general interest to our readers.

—EDITOR.]

THE RAILWAY SIDE

MR. HENRY A. CASTLE:

SIR,—I have read with much interest your article in the NORTH AMERICAN REVIEW, entitled, "The Post Office and Socialism." I wish to congratulate you upon an illuminating and instructive discussion. Your views as to the original and proper scope of the postal service—namely, the diffusion of written and printed intelligence—and as to the consequences attendant upon the expansion of this service into a commercial venture of the Government, will no doubt make a profound impression upon thinking people.

In the midst of your article, however, there are one or two references to the mail pay of the railroads which I feel it my duty to correct, believing that in these instances—which, though incidental to the main theme of your argument, are nevertheless fundamentally of great importance—you have been obliged to reason from inadequate information.

In the course of your article you say:

"Mail transportation rates need reform. Making due allowance for exaggeration, it is probable that of the \$52,000,000 now annually paid to the railroads alone for carrying our mail, nearly one-third could be saved by an honorable and fair readjustment which the railroads would accept."

Now, a sweeping reduction in railway mail pay could be justified only on the assumption that the present compensation is excessive. But is it? I cannot, of course, in the limits of a letter, attempt to argue the question statistically on its merits, but I can, at least, cite the conclusions of a number of eminent authorities who have given careful and even profound study to the subject.

In August, 1914, the Joint Congressional Committee on Railway Mail Pay submitted its report. That Committee, after several years of investigation and the taking of 1,500 printed pages of testimony from the Post Office Department and the railroads, recommended a system of rates which, in the Committee's belief, would have *increased* railway mail pay about \$3,000,000 per year. The Committee said:

"We believe our suggested rates are certainly not too high from a Governmental standpoint, though they may be too low from a railroad standpoint."

The Joint Congressional Committee, bi-partisan in its composition, was appointed in August, 1912, the members being: Senators—Jonathan Bourne, Jr., of Oregon, Chairman; Harry A. Richardson, of Delaware; John H. Bankhead, of Alabama. Representatives—James T. Lloyd, of Missouri; William E. Tuttle, of New Jersey; John W. Weeks, of Massachusetts. Mr. Weeks has since been elected to the Senate.

The conclusions of this Joint Congressional Committee are the most recent and authoritative that we have on this subject, and these conclusions,

as I have pointed out, were that railway mail pay should in fairness not be reduced, but should be increased.

I may add that the railroads took the figures submitted by the Post Office Department during the hearings before the Joint Congressional Committee and, after analyzing them according to the recognized methods of apportioning transportation costs, showed that these very figures indicated that the railroads, far from being overpaid, were actually underpaid by something like \$15,000,000 annually.

Almost as recent as the findings of the Joint Congressional Committee is the pronouncement of Mr. Louis D. Brandeis while acting as Special Counsel to the Interstate Commerce Commission in the Five Per Cent. Advance Freight Rate Case. Mr. Brandeis, in May, 1914, reported to the Commission:

"It seems clear that the railway mail service is at present unremunerative to the carriers."

In 1913 Dr. M. O. Lorenz, Associate Statistician of the Interstate Commerce Commission, calculated that the railroads were underpaid by certainly more than \$5,000,000 per year for carrying the mails. He declined to commit himself as to how much more.

In 1901 the Wolcott-Loud Commission—another specially appointed Congressional Committee which made a most painstaking inquiry—in its report to Congress summed up its conclusions as follows:

"We are of the opinion that the prices now paid to the railroad companies for the transportation of the mails are not excessive, and recommend that no reduction thereof be made."

These four investigations are the only impartial inquiries into the subject of railway mail pay that have been made in many years. You will note that in three cases the investigators found that the railroads were paid too little, and in the fourth case at least not too much.

Of course, I do not know upon what premises you based your conclusion that railway mail pay could be equitably reduced some \$17,000,000 per year, but I have recited the findings of the acknowledged authorities who have given the subject special study, and you will observe that their conclusions are unanimously and emphatically the reverse.

Despite the Wolcott-Loud Commission's recommendations of fourteen years ago, Congress has since, without further inquiry, twice reduced the rates of pay by law, and a former Postmaster General, by the "Divisor Order" of 1907, made a further heavy reduction by mere executive action. Meanwhile, also, the parcel post has been established, and to date no provisions have been made to compensate the railroads adequately for the additional service which its inauguration and the subsequent great extensions of its scope have entailed.

In discussing the proposals for further extensions of the parcel post you say that "no suggestion is ever made as to reducing the pay to the railroads for carrying the parcels to 55 per cent. of the postal receipts, which is the English rate."

The question whether such a basis of compensation would be fair or not necessarily depends upon what rates of postage are established, and upon the general character of the rate scheme. A division of receipts, under flat rates of postage for all hauls, might not be inequitable in Great Britain, where the hauls are short; but would it be in this country, where hauls of

3,000 miles are possible and would be largely availed of under flat postage rates?

The railroads should be justly paid for the service required of them. This principle, we maintain, holds no matter what theories may be entertained regarding postage rates. If for any reason it should be judged wise public policy to make postage rates so low as to amount to subsidies to the parcel post shippers, the expense of the subsidy should be paid out of the general funds of the nation. It cannot justly be laid upon a limited portion of the citizens—namely, those who have invested their savings in railroad properties.

Yet the inference of your comment, which I have quoted, is that while you are opposed to the subsidy basis for the parcel post, nevertheless if the Post Office Department *does* establish the parcel post upon that basis, it might go a step farther and shift some or all of the loss to the railroads. Our position is that such a step would be an unwarranted discrimination against a portion of the people, and even, to some extent, a confiscation of their property.

You are apparently under the impression that the railroads are being too liberally paid for parcel post transportation. The true situation is that in the fiscal year recently closed, as nearly as can be estimated, the railroads carried at least 50 per cent. of the parcel post without any compensation at all. This is one of the consequences of the "quadrennial weighing" system of readjusting railway mail pay. Another consequence has been that during the first six months after the inauguration of the parcel post the railroads carried it all—literally every package—without one cent of payment.

Just what proportion of the postage receipts the railroads are now receiving for parcel post transportation is a thing that no one knows, owing to the abolition, on July 1, 1913, of the use of distinctive parcel post stamps—an act of the Post Office Department which the Bristow Parcel Post Committee, in its recent report to Congress, declared had "thrown the whole accounting system into complete confusion." I may say, however, that those most familiar with the subject entertain no doubt that our American railroads are getting very much less than the British 55 per cent. rate.

I have written to you at length upon this subject because, in view of its probable agitation in Congress, we are most anxious that everyone interested shall, as nearly as possible, be placed in possession of the facts and understand the basis of the railroads' claims.

Very truly yours,
RALPH PETERS.

NEW YORK CITY.

THE POSTAL SIDE

HON. RALPH PETERS:

SIR,—The allusions to railroads in my paper in THE NORTH AMERICAN REVIEW were, as you justly observe, purely incidental, also largely hypothetical. Nevertheless, it is proper for me to reply briefly to your courteous request for the basis of my suggestions as to mail transportation charges. I am not a transportation expert. I am advised as to the reports you cite favorable to the contentions of the railroads—also as to the sometimes bitter and exaggerated attacks thereon. I have, as a student of postal affairs, tried to keep an open mind on the subject. Hence the mild tenor of the comment.

I confess, however, to a long-standing impression that the current compensation to railroads for carrying the mail is excessive. It will be easier to explain that impression than fully to justify it. It never became my official duty to investigate it. Congress fixes the rate and the Post Office Department certifies the service performed to the Auditor, an official of the Treasury Department, whose only function is to apply the law to such certified service, and issue warrants therefor. But for nearly seven years, as the head of that bureau, with 600 clerks charged with postal accounting, and located in the Post Office building at Washington, my office was on the same floor with that of the Postmaster General, and I was in hourly conference with the department officials on the financial relations of all divisions of the service. Hence, I naturally gained some insight as to administrative matters with which I had no official concern, and formed opinions thereon.

I soon found that the Department specialists, who made the computations as to compensation, agreed in the view that those rates could be reduced one-third to one-half. I found, also, that all important railroads in the country maintained in Washington able attorneys to look after mail interests, each working zealously to increase his road's mail tonnage, alleging shorter distances, faster trains, special facilities, etc., as against competing lines; the fair assumption being that the business is profitable. I further found that there were frequent charges against certain railroads of fraudulently padding their mail during the quadrennial weighing period, one flagrant case whereof I was the personal discoverer. I heard my friend, Col. W. P. Clough, Vice-President of the Northern Pacific, argue ably fifteen years ago in favor of compensation based on space occupied instead of on weight, which seemed to promise economies, or at least an elimination of abuses.

These are some of the explanations of, not apologies for, my incidental and hypothetical allusions to the railroads. I have neither the mission, the inclination, nor the ability to argue the various points you present, all admittedly foreign to the main purpose of my writing. The railroads ought to be fairly, not excessively, compensated for carrying the mails. Their service includes the free transportation of postal clerks, agents and inspectors, aggregating a large sum annually, no account of which is kept. Per contra, it involves a certain indefinite but valuable protection to railroad property, in case of attempted mob violence, which should not be overlooked.

The railroads must be fairly compensated. They are justified in resisting unjust reductions, and have a paramount incentive against unjust demands for increase, in that the prevalent idea that they are overpaid is a leading factor in the socialistic outcry for Government ownership and operation.

I did not refer to the flat rates of the British parcel post for the purpose of commending them, but the reverse. They would be absurd with our longer distances and infinite complications. As I understand it, the British flat rate for this postage is \$2 per hundred pounds, out of which they pay the railroads \$1.10. But the parcels are hauled in carload lots, loaded and unloaded by post office employees, and treated as freight. If this be true, it is a very different thing from our fifty-mile-an-hour schedule and our transcontinental distances. Yet the mail-order houses and their champions, including the expert just mentioned, boldly avow the English charge on

parcels as their objective, without mention of freight train service and lower pay therefor.

Under the quadrennial weighing system, the railroads in certain sections must wait from one to four years, unless relieved by Congress, before getting full pay for the vastly increased mail tonnage of the so-called parcels post. This fact only emphasizes my argument as to the coming expense of this innovation, and the ruinous consequences of its relegation to the British revenue basis with the present rates of expenditure. We have no authentic estimate of the cost, per hundred, of carrying our mail an average distance, because we have not, to my knowledge, any reliable statement of the total weight of our mail. Until more correct figures are given we may perhaps accept the old approximate figure of eight cents a pound. To collect, transport, and deliver the multiplied millions of tons of parcels, under increasingly liberal rules as to size and weight, at the proposed British flat rate of postage—two cents a pound—and pay out therefor four times that amount: this is one of the Barmecide feasts to which state socialism coolly invites us—a fit prelude to postal railways, Government laundries, and Treasury notes based on deposits of short-ribs, hoop-poles, and wheat screenings.

My REVIEW paper was condensed to the minimum, and this letter is already too long. A volume would be needed to elaborate the theme. If proof is required that a possible peril lies in the fact that private interests as well as official agencies struggle with the postal service and with each other for an increasing share of its benefits, the roster of your Committee on Railway Mail Pay, consisting of nine Presidents and Vice-Presidents of leading railroad corporations, supplies it. Your organization and activities are legitimate, but symptomatic. You urge larger railway pay—intelligently and no doubt honestly, from your point of view. Most classes of postal employees in strong associations numbering from 5,000 to 50,000 each, urge larger salaries and retirement pensions—honestly, from their point of view. Postal savings depositors are preparing to organize for higher rates of interest. Various business or social schemes are on foot for reduction of postage. Some of these several demands are meritorious, but all are clamorous, and many will be successful without strict regard to merit. With constantly enlarging functions, with reduced revenues and increased expenditures in many directions—where can the end be, short of readjustment or chaos?

To sum up: My statement that railway mail pay needs reform (readjustment) stands; my expressed supposition that the railroads would consent to a reduction of transportation rates seems to be negated by the formation of your Committee to oppose such reduction; the natural inference that those rates are excessive is ably combatted by your presentation; but the vital postulate that Post Office socialism is a menacing peril to the Republic stands unchallenged, except by socialists. Q. E. D.

Respectfully yours,

HENRY A. CASTLE.

ST. PAUL, MINN.